

UNITED STATES DEPARTMENT OF STATE
BUREAU OF POLITICAL MILITARY AFFAIRS
WASHINGTON D.C. 20520

In the Matter of:

HUGHES ELECTRONICS CORPORATION
BOEING SATELLITE SYSTEMS, INC.

Delaware

Respondents

CONSENT AGREEMENT

WHEREAS, the Office of Defense Trade Controls, Bureau of Political Military Affairs, U.S. Department of State ("Department") has notified Hughes Electronics Corporation and Boeing Satellite Systems, Inc. (formerly Hughes Space and Communications), (the "Respondents") of its intent to institute an administrative proceeding pursuant to the Arms Export Control Act (the "Act") (22 U.S.C. § 2778 (e)) and its implementing regulations, the International Traffic in Arms Regulations ("ITAR" or "Regulations") (22 C.F.R. § 120-130), based on allegations that the Respondents violated Section 38 of the Act and § 127 of the Regulations as set forth in a Charging Letter issued to the Respondents on December 26, 2002, attached hereto and incorporated by reference; --- such as by violating the express terms and conditions of Department of State munitions licenses and exporting defense services without munitions licenses or other authorizations to the People's Republic of China ("PRC");

WHEREAS, the principal vehicle for the violations alleged in the Charging Letter were violations of the Act and the Regulations by the Respondents in connection with their conduct related to the January 1995 failed launch of the Long March 2E rocket carrying the APSTAR II spacecraft, the February 1996 failed launch of the Long March 3B rocket carrying the INTELSAT 708 spacecraft, and other matters set forth in the Charging Letter;

WHEREAS, the Respondents, have reviewed the Charging Letter and this Consent Agreement, fully understand these documents and enter into this Agreement voluntarily and with full knowledge of their rights;

WHEREAS, the Respondents by entering into this Consent Agreement wish to settle and dispose of all civil charges, penalties and sanctions associated with alleged violations of Section 38 of the Act or Regulations arising from the facts which the Respondents have disclosed in writing to the Department that have been identified in the Charging Letter; and upon a request by the United States Customs Service (USCS) or its successor Agency or Bureau, this settlement also includes full resolution of any claims including forfeiture claims of the USCS (or its successor Agency or Bureau) arising from the facts developed during their investigation of this matter;

WHEREAS, the Department and the Respondents agree to be bound by this Agreement and a related administrative order ("Order") (attached) to be entered by the Assistant Secretary of State for Political Military Affairs.

Now, WHEREFORE, the Department and Respondents agree as follows:

Parties

(1) The Parties to this Agreement are the Department, USCS (or its successor Agency or Bureau), Hughes Electronics Corporation and Boeing Satellite Systems, Inc. The term "Respondents" includes Hughes Electronics Corporation and Boeing Satellite Systems, Inc., their wholly owned subsidiaries, including in particular their business units engaged in the manufacture and/or export of defense articles and defense services related to space systems, launch vehicles, electronics and other articles controlled on the U.S. Munitions list, and their operating divisions, subsidiaries, assignees and successors.

Jurisdiction

(2) The Department has jurisdiction over the Respondents under the Act and the Regulations in connection with the matters identified in the Charging Letter. USCS has jurisdiction over the Respondents pursuant to authority under 19 U.S.C. 1617.

Defense Services and Foreign Defense Articles

(3) The Respondents acknowledge and accept that the definition of "defense services" in the Regulations is well established and clearly understood by them as setting out responsibilities and requirements which are binding as a matter of law and regulation on them; the furnishing of defense services to foreign persons-- regardless of whether the underlying defense article(s) is of U.S. or foreign origin--is appropriately subjected to control under the Regulations by the Department even when no technical data is involved (e.g., all the information relied upon in furnishing defense services to a foreign government or foreign person is in the public domain); and, the law and regulations governing defense services and proposals to foreign persons are sufficiently clear and

specific as to be enforceable by the U.S. Government on criminal and civil grounds and they, the Respondents, are responsible and obligated as a matter of law and regulation to comply with the requirements of such laws and regulations as they pertain to defense services and related matters.

Missile Technology Control Regime (MTCR)

(4) The Respondents acknowledge and accept that unauthorized defense services and other conduct and actions by U.S. persons which help promote the development of MTCR Category I and Category II systems contrary to the security and the foreign policy of the United States, including U.S. Government obligations under the MTCR, are serious matters, which may be subject to sanctions in circumstances specified in Section 72 of the Arms Export Control Act.

Penalty

(5) The Respondents agree that they shall pay in fines and remedial compliance measures a civil penalty of \$32,000,000 (thirty-two million dollars), comprised of the amounts stipulated in subparagraphs (a) and (b), in complete settlement of alleged civil violations pursuant to Section 38 of the Act as set forth in the Department's Charging Letter. In addition, the USCS has requested that the State Department represent its interests in any consent agreement reached with the companies, and also agrees that a part of the total cash penalty, as specified below, assessed against the companies will be deemed as satisfaction of any civil forfeiture claims against the companies in this matter. This civil penalty shall be payable as follows:

- a. \$1,500,000 (one million five-hundred thousand dollars) shall be paid to the Department of State and \$1,000,000 (one million dollars) shall be paid to the USCS (or its successor Agency or Bureau) by Hughes Electronics Corporation within ten days of the signing of the Order and \$2,500,000 (two million five-hundred thousand dollars) shall be paid in similar installments to the Department and the USCS (or its successor Agency or Bureau) payable by Hughes Electronics Corporation on the first, second, third, fourth, fifth, sixth and seventh anniversary of the signing of the Order. The Respondents agree that the effect of any statutory limitation to the collection of the civil penalty imposed by this Agreement be tolled until the last payment is made.
- b. An additional civil penalty of \$12,000,000 (twelve million dollars) is hereby assessed, but its payment shall be suspended on the condition that Respondent Boeing Satellite Systems, Inc. will apply \$6,000,000 (six million dollars) of this amount over a five (5) year period and Respondent Hughes Electronics Corporation will apply \$2,000,000 (two million dollars) of this amount over a five (5) year period for the purpose of defraying a portion of the costs associated with the remedial compliance specified herein and in the Annex of Compliance

Measures attached hereto, including the costs associated with the Special Compliance Official and with implementation of that official's recommendations. \$4,000,000 (four million dollars), consisting of \$2,000,000 (two million dollars) that has already been credited to each Respondent separately and has already been invested in strengthened compliance measures that have been identified by the Respondents to the Department, shall be counted towards the \$12,000,000 (twelve million dollars) total. The Respondents will provide annually to the Department on the anniversary of the date of the Order written accounting(s) of the expenditures associated with this penalty.

- c. Any failure by a Respondent to use these funds appropriately for this purpose or to provide a satisfactory accounting shall result in a lifting of the suspension, in which case such Respondent shall be required to pay immediately a pro-rated amount of its portion of the portion of the penalty suspended to the Department and USCS (or its successor Agency or Bureau) to promote future compliance activities.

Debarment

(6) The offenses alleged in the Charging Letter relate to the Respondents' regulated activities with respect to the PRC and Hong Kong, and concerns about the Respondents' reliability in these areas. However, the Department has determined that a prospective debarment of the Respondents is not appropriate at this time in view of the Respondents' remorse for participating without required authorization in the two launch failure investigations with the PRC and for the consequences of that action, their acknowledgement of the seriousness of the alleged offenses, their desire to make amends, and their agreement to take significant remedial actions, including efforts to improve their corporate compliance programs as specified herein. The Department reserves the right to consider imposing additional sanctions, including debarment under the Regulations, against either Respondent that does not fulfill the provisions of this Consent Agreement or is responsible for other compliance or law enforcement concerns under the Act or other statutes specified in 22 C.F.R. § 120.27.

Appointment of a Special Compliance Official

(7) The Respondents shall each appoint a qualified individual from outside the corporation to serve as a Special Compliance Official. The term, authorities and responsibilities of this official are described in the Annexes of Compliance Measures attached to this Consent Agreement.

On-Site Audits

(8) For the purpose of assessing compliance with the provisions of the Act, the Regulations and future munitions licenses and authorizations, the Respondents agree to arrange and facilitate, with minimum advance notice, on-site audits of their business units, wherever situated, by the Department during the seven year (7) period of this Agreement commencing on the signing of the Order.

Understandings

(9) No agreement, understanding, representation or interpretation not contained in this Agreement may be used to vary or otherwise affect the terms of this Agreement or the Order, when entered, nor shall this Agreement serve to bind, constrain, or otherwise limit any action by any other agency or department of the United States Government with respect to the facts and circumstances addressed herein, except as otherwise noted. Specifically, the Respondents acknowledge and accept that there is no understanding expressed or implied through this Agreement with respect to any decision by the Department of State concerning their interest in the approval of export licenses or other U.S. Government authorizations necessary to past, pending or future munitions license applications. The Department agrees, assuming the Respondents' faithful adherence to the terms of this Agreement, and the Act and the Regulations more broadly, that decisions concerning future export license applications for the Respondents will be made on the basis of the security and foreign policy interests of the United States, including matters relating to U.S. relations with the People's Republic of China, without reference to the Department's previously expressed concerns regarding the Respondents' reliability, which concerns are considered to be appropriately mitigated through the faithful operation of this Agreement.

(10) The Department and the Respondents agree that this Agreement is for settlement purposes only. For purposes of this Agreement, the Respondents neither admit nor deny the allegations in the Charging Letter (including without limitation those set forth in the "Relevant Facts" and "Charges" section of that letter). The Respondents acknowledge the nature and seriousness of the offenses alleged by the Department in the Charging Letter, including the risk of harm to the security and foreign policy interests of the United States, and wish to make amends through the payment of restitution, as set forth in this Agreement, and also through the administration of an effective corporate compliance program that will prevent any future actions such as those addressed in the Charging Letter. If this Consent Agreement is not approved pursuant to an Order entered into by the Assistant Secretary for Political Military Affairs, the Department and the Respondents agree that they may not use this Agreement in any administrative or judicial proceeding and that none of the parties shall be bound by the settlement terms contained in this Agreement in any subsequent administrative or judicial proceeding.

(11) The Department agrees that, upon signing of the Order and entry into force of this Agreement, this Agreement resolves with respect to the Respondents any civil penalties or sanctions imposed with respect to violations of Section 38 of the Act or Regulations alleged in the Charging Letter or arising from facts that the Respondents have disclosed in writing to the Department or that have been identified in the Charging Letter. Further, this Agreement also resolves, with respect to the Respondents and with respect to this matter, any civil penalties or sanctions with respect to any matter within the jurisdiction of the USCS (or its successor Agency or Bureau).

(12) The monetary penalty obligation of the Respondents under paragraph 5 (a) of this Consent Agreement is joint, while other obligations outlined under this Consent Agreement are several and not joint, so that Hughes Electronics Corporation shall have no responsibility for actions or omissions of Boeing Satellite Systems, Inc., nor shall Boeing Satellite Systems, Inc. have responsibility for actions or omissions of Hughes Electronics Corporation.

Waiver

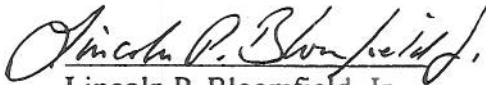
(13) The Respondents agree that, upon signing of the Order and entry into force of this Consent Agreement, they waive all rights to seek administrative or judicial consideration or review of, or to otherwise contest, the validity of this Consent Agreement, the Order or this matter, including in any action that may be brought for the enforcement of any civil fine, penalty or forfeiture in connection with this Consent Agreement, except that neither of the Respondents waives its aforesaid rights with regard to any alleged violations of this Agreement. Respondents further agree to waive any claims for this Consent Agreement to be presented to the designated Administrative Law Judge (ALJ). Notwithstanding this waiver, the Department hereby, as represented by the Assistant Secretary of State for Political Military Affairs, provides an exception to the provisions of § 128.10 of the ITAR that implies this Consent Agreement should be submitted to the appointed ALJ.

Documents to be Made Public

(14) The Respondents understand that the Department will make this Agreement, including the Annexes of Compliance Measures, the Charging Letter, and the Order, when entered, available to the public.

(15) This Consent Agreement shall become binding on the Department and the USCS (or its successor Agency or Bureau) only when the Assistant Secretary for Political Military Affairs approves it by entering the Order, which will have the same force and effect as a decision and Order issued after full administrative hearing on the record.

United States Department of State

Lincoln P. Bloomfield, Jr.
Assistant Secretary for
Political Military Affairs3-4-03

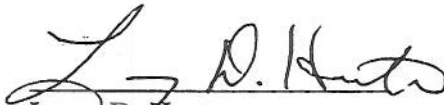
Date

United States Customs Service

Michael T. Schmitz
Assistant Commissioner
Office of Regulations and Rulings2-27-03

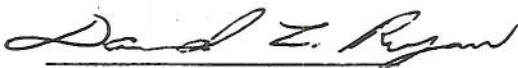
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Hughes Electronics Corporation

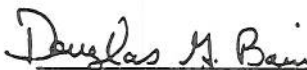
Larry D. Hunter
Sr. Vice President & General Counsel2/25/03

Date

Boeing Satellite Systems

David L. Ryan
President Vice President & General Manager2/24/03

Date

Douglas G. Bain
Sr. Vice President & General Counsel2/21/03

Date

Annex of Compliance Measures

Hughes Electronics Corporation ("Hughes")

Hughes Electronics Corporation (Hughes), reflecting its commitment to conduct space and missile-related programs in full compliance with the Arms Export Control Act (the "Act") and the International Traffic in Arms Regulations (the "Regulations"), and in order to ensure, in particular, that there is no unauthorized defense service (including any technical assistance whatsoever) to any foreign person, including any of its foreign partners, and in particular, any assistance that would assist in the design, development or enhancement of foreign space launch vehicles, missiles or facilities, agrees to implement the following remedial measures and such additional measures as may be mutually agreed upon by Hughes, the Special Compliance Official and the Director, Office of Defense Trade Controls Compliance ("DTCC"). Hughes agrees further that these measures will be honored for a seven (7) year period, unless otherwise noted, as part of the Consent Agreement entered into with the Department of State and the USCS (or its successor Agency or Bureau).

Appointment of a Special Compliance Official (SCO)

(1) Hughes General Counsel's office shall appoint a qualified individual from outside the corporation to serve as a Special Compliance Official (SCO) for an initial term of three (3) years, to be succeeded by an individual from inside the corporation who will serve for an additional two (2) years, in both instances reporting to Hughes's General Counsel, the Director, Export Compliance, the Board of Directors and the Director, DTCC.

(2) The SCO shall not have been employed in any prior capacity by nor previously represented Hughes, or any of its subsidiaries, and shall agree to forsake for all time as a condition of this employment any such future employment or representation. The appointment shall be made within thirty (30) days of the signing of this Agreement and accompanying Order and, unless agreed to by the parties to this settlement prior to, or at the time, of settlement, the appointment shall be subject to the written approval of the Director, DTCC. The SCO shall have three principal areas of responsibility regarding the future conduct of Hughes: (a) strengthening Hughes's export compliance program with specific attention relating to those areas associated with the offenses alleged in the Charging Letter and to improved written policies and procedures for regulated activities carried out by Hughes; (b) ensuring that Hughes performs its responsibilities in a timely and satisfactory manner as required by this Agreement and the accompanying Order; and (c) overseeing all activities by Hughes subject to the Regulations during the period covered by this Agreement (i.e., 5 (five) years, unless otherwise expressly provided for) insofar as those activities concern foreign persons (including foreign governments and foreign non-government entities without limitation) from the PRC (including Hong Kong) and the countries which comprised the former Soviet Union (but not including the Sea Launch program, in which The Boeing Company participates). With respect to the

third area, (c), the SCO shall be kept fully informed by Hughes's General Counsel and Director, Export Compliance, and actively engaged in overseeing all activities related to compliance with the Regulations, the Act and the specific terms and conditions of pertinent licenses, with complete access to all relevant personnel and documents. With respect to its other business operations, Hughes also acknowledges and accepts its obligation to ensure that those operations have and maintain effective export control procedures, and also to ensure appropriate coordination between Hughes's General Counsel's office and the SCO such that its other business operations may benefit from enhanced compliance measures once introduced. In fulfilling the responsibilities set forth in this Consent Agreement, the SCO may at his/her sole discretion present any disagreement with Hughes's management directly to any or all among Hughes's President and Chief Executive Officer, the Hughes Board of Directors or the Director, DTCC. Hughes's General Counsel may participate in discussions initiated by the SCO with the Board of Directors at the SCO's or Board's discretion. The Hughes Board of Directors shall consent to the following terms and conditions regarding the power, duties, authorities, and responsibilities of the SCO:

(A) The SCO shall have the power and authority to monitor Hughes's compliance with the terms of this Consent Agreement and accompanying Order and shall exercise such power and authority and carry out the duties and responsibilities of the SCO as set forth herein in a manner consistent with the purposes of this Consent Agreement, the accompanying Order, the specific terms and conditions of munitions license applications and other authorizations falling within the parameters of clause 2(c), above, provided to Hughes by the Department of State, and shall do so in consultation with the DTCC.

(B) Within fifteen (15) days of the appointment of the SCO, Hughes shall confer on this individual all rights and powers necessary to permit the SCO to monitor, oversee and promote Hughes's compliance with the terms of this Agreement in a manner consistent with the purposes of this Agreement and the Order, and the specific terms and conditions of pertinent (i.e., covered by clause 2 (c) above) munitions license authorizations and other activities subject to the Regulations and the Act. Such rights and powers shall be conferred in writing; they shall be made known throughout Hughes's respective companies; and a copy shall be deposited by the forty-sixth (46) day of the signing of the Order with the Office of DTCC.

(C) The SCO shall serve for a three (3) year period from the date of the signing of the Order. If for any reason the appointed SCO is unable to serve the full period of his/her appointment, Hughes's General Counsel may recommend a successor acceptable to the Director, DTCC, the latter's agreement to the replacement to be provided and confirmed in writing. Such a recommendation shall be made at least thirty (30) days in advance of a new appointment. If the SCO for any reason is unable to carry out the responsibilities described herein on a temporary basis (i.e., not to exceed thirty (30) days), the Hughes's General Counsel shall assume the power and authority of SCO in the interim. The conferring of rights and powers described in paragraph (B), above, shall make provision

for this event. Within twenty-four months of appointment, the SCO, after consultations with Hughes's General Counsel shall recommend a successor SCO acceptable to Hughes and the Director, DTCC, who shall serve for the remaining two (2) year period. The successor SCO shall be an employee of Hughes, who is fully empowered and capable of performing the responsibilities of the SCO.

(D) The SCO shall have full and complete access to Hughes's personnel, books, records, documents, facilities and technical information relating to compliance with this Consent Agreement, Order and pertinent (i.e., covered by clause 2 (c) above) munitions authorizations, licenses, guidance and the like relating to the export of defense articles and defense services associated with Hughes programs.

(E) Hughes shall cooperate with any reasonable request of the SCO, including any request for assistance to obtain any necessary security clearances, and shall take no action to interfere with or impede the SCO's ability to monitor Hughes's compliance with this Agreement, the Act and the Regulations or to carry out his/her other responsibilities set forth in this Agreement.

(F) The SCO, with Hughes's consent, which shall not be unreasonably withheld, shall have the authority to employ, at the expense of Hughes, such assistants and other professional staff as are reasonably necessary to carry out the SCO's responsibilities. Such expenses, including salaries and expenses of the SCO, may be paid from the additional suspended penalty of \$2,000,000 (two million dollars) of the applicable portion described in paragraph 5 (b) of this Agreement.

(G) The Office of DTCC may, on its own initiative or at the request of the SCO, issue such guidance as may be necessary or appropriate to ensure compliance with the Regulations and the terms and conditions of authorizations it (DTCC) has provided to Hughes.

(H) The SCO shall provide reports to Hughes's General Counsel and shall also provide periodic reports to Hughes's Board of Directors, as well as to the Director, DTCC, concerning Hughes's compliance with this Agreement and Order, as well as with such other pertinent (i.e., covered by clause 2 (c) above) U.S. Government munitions authorizations, licenses, guidance and the like then in force pertaining to Hughes's ITAR regulated activities. These reports shall include conclusions and any recommendations necessary to ensure strict compliance with the Act and Regulations; state whether the SCO has encountered any difficulties in exercising the duties and responsibilities assigned herein; describe any and all instances of non-compliance without waiving Hughes's ability to submit voluntary disclosures; and advise on progress in implementing previous recommendations advanced by the SCO. These reports may, in a separate annex, also include any relevant comments or input by Hughes's General Counsel. The reports shall be provided:

- Every sixty (60) days for a period of six months from the date of the signing of the Order; and
- Semi-Annually thereafter during the remainder of the SCO's period of appointment.

Strengthened Compliance Training

(3) Within 120 days of the signing of the Order, Hughes shall have instituted strengthened corporate export compliance procedures focused primarily on Hughes's business operations such that: (a) all Hughes employees of the business units engaged in space or missile-related activities are familiar with the Act, the Regulations, and their own and Hughes's responsibilities, thereunder; (b) all officers and employees at the corporate level in these business units are knowledgeable about the underlying policies and principles of the Act and the Regulations; and (c) there are carefully maintained records indicating the names of the employees, trainers, and level and area of training received (e.g., use of public domain information in performing defense services, applicability of ITAR to foreign-origin defense articles).

Computer Control System and USG Remote Monitoring

(4) Within 120 days of the signing of the Order, Hughes shall have instituted a comprehensive computerized document control system that ensures prior U.S. Government review. This system will ensure that DTCC and DoD/DTSA will have prior review of all documents which require such review pursuant to the terms and conditions of licenses and other approvals provided by the Department (DTCC to Hughes concerning its space and related regulated activities. This system will cover all technical data and technical assistance in any form proposed to be disclosed to any foreign persons (covered by clause 2 (c) above) and will be accessible for a period of seven (7) years by remote computer access to DTCC, DoD/DTSA, the Special Compliance Official and the Hughes's General Counsel's office. Hughes will archive all releases, indexed to reflect the details of specific U.S. Government approvals, every 90 days, and provide copies in CD-ROM form to DTCC, DoD/DTSA and the Special Compliance Official. Hughes understands that DTCC may, at its sole discretion, decline to authorize use of exemptions for shipments of unclassified technical data in furtherance of a technical assistance agreement pending the institution of this system, as stated in the Federal Register, Vol. 64, No. 54, on March 22, 1999.

Law Department Oversight

(5) Within 120 days of signing the Order, Hughes shall establish measures such that the Hughes General Counsel's office will provide oversight and support to Hughes and its subsidiaries involved in space and missile-related export activities for all matters involving the Act and Regulations. This oversight will also be structured to achieve

consistent application of the Act and Regulations by all Hughes subsidiaries. Toward this end, the Hughes General Counsel's office shall consider and implement, where appropriate, those improvements in the respective Hughes' compliance program recommended by the Special Compliance Official which have applicability to other Hughes entities. In addition, the Hughes General Counsel's office shall take action such that in each Hughes subsidiary appropriate legal support is made available as necessary to the principal personnel responsible for compliance with the Act and the Regulations and appropriate legal oversight is performed in each subsidiary with respect to such matters. In addition to other reporting responsibilities, Hughes legal staff providing support regarding the Act and Regulations shall regularly report to the Hughes General Counsel's office with respect to such matters. The Special Compliance Official and the Hughes General Counsel's office will have the opportunity for input in performance reviews of the appropriate personnel responsible for compliance with the Act and Regulations.

Hotline for AECA and ITAR

(6) Within 120 days of the signing of the Order, Hughes will have instituted a hotline system to ensure that violations of the AECA and ITAR may be readily reported via this channel, without fear of recrimination or retaliation. Hotline calls about export matters will be directed to the Special Compliance Official, the Hughes Ethics Officer and the Hughes Director of Export Compliance which will be responsible for responding to such calls. The Special Compliance Official shall prepare a quarterly report assessing the effectiveness of the hotline system. A copy of the report shall be provided to the General Counsel of Hughes and to the Director, DTCC. This written report will contain sufficient detail such that the Department may, consistent with its responsibilities under the law and regulations, form an opinion about the seriousness of any alleged violations, without disclosing employee confidentiality.

Audit

(7) No later than eighteen months after signing the Order, Hughes, in coordination with the Special Compliance Official, will conduct a thorough assessment of Hughes's implementation of all measures set forth in paragraphs 1-6 above, and such other areas that may be identified by the Special Compliance Official, with a draft audit plan to be submitted for the Department's (DTCC) review and comment prior to the start of the audit. Thereafter, a written report containing recommendations for improvements with respect to the aforesaid measures or compliance with the Act or Regulations more generally, shall be submitted to the Hughes General Counsel's office, the Special Compliance Official and to the Director, DTCC no later than the second anniversary of the signing of the Order.

Other

(8) In addition, the applicable portion of the civil penalty of \$2,000,000 (two million dollars) imposed under paragraph 5 (b) of the Consent Agreement may be applied to

Hughes's costs associated with increasing in-house export control personnel associated with additional export compliance enhancements, as required, including attorney(s), Hughes's export compliance manual, internal web site, and other export control compliance procedures and documents, as well as consultants and experts from outside Hughes to support the above described activities.

Annex of Compliance Measures

Boeing Satellite Systems, Inc. (BSS)

Boeing Satellite Systems, Inc. (BSS), reflecting its commitment to conduct space and missile-related programs in full compliance with the Arms Export Control Act (the "Act") and the International Traffic in Arms Regulations (the "Regulations"), and in order to ensure, in particular, that there is no unauthorized defense service (including any technical assistance whatsoever) to any foreign person, including any of its foreign partners, and in particular, any defense service (and any technical assistance whatsoever) that would assist in the design, development or enhancement of foreign space launch vehicles, missiles or facilities, agrees to implement the following remedial measures and such additional measures as may be mutually agreed upon by BSS, the Special Compliance Official and the Director, Office of Defense Trade Controls Compliance ("DTCC"), and BSS agrees further that these measures will be honored for a seven (7) year period, unless otherwise noted, as part of the Consent Agreement entered into with the Department of State and the USCS or its successor Agency or Bureau.

Appointment of a Special Compliance Official (SCO)

(1) BSS's Chief Counsel shall appoint a qualified individual from outside the corporation to serve as a Special Compliance Official (SCO) for an initial term of three years, to be succeeded by an individual from inside the corporation who will serve for an additional two (2) years, in both instances reporting to BSS's Chief Counsel, the Director, Export Management, Integrated Defense Systems (IDS), the BSS Board of Directors and the Director, DTCC.

(2) The SCO shall not have been employed in any prior capacity by nor previously represented BSS, or any of its subsidiaries, and shall agree to forsake for all time as a condition of this employment any such future employment or representation. The appointment shall be made within thirty (30) days of the signing of this Agreement and accompanying Order and, unless agreed to prior to by the parties to this settlement, or at the time of settlement, the appointment shall be subject to the written approval of the Director, DTCC. The SCO shall have three principal areas of responsibility regarding the future conduct of BSS: (a) strengthening BSS's export compliance program with specific attention relating to those areas associated with the offenses alleged in the Charging Letter and to improve written policies and procedures for regulated activities carried out by BSS; (b) ensuring that BSS performs its responsibilities in a timely and satisfactory manner as required by this Agreement and the accompanying Order; and (c) overseeing all activities by BSS subject to the Regulations during the period covered by this Agreement (i.e., 5 (five) years, unless otherwise expressly provided for) insofar as those activities concern foreign persons (including foreign governments and foreign non-government entities without limitation) from the PRC (including Hong Kong) and the countries which comprised the former Soviet Union. With respect to the third area, (c),

the SCO shall be kept fully informed by BSS's Chief Counsel and the Director, Export Management, IDS and actively engaged in overseeing all activities related to compliance with the Regulations, the Act and the specific terms and conditions of pertinent licenses, with complete access to all relevant personnel and documents. With respect to its other business operations, BSS also acknowledges and accepts its obligation to ensure that those operations have and maintain effective export control procedures, and also to ensure appropriate coordination between BSS's Chief Counsel's office and the SCO such that its other business operations may benefit from enhanced compliance measures once introduced. The SCO may also be requested to perform other export oversight and coordination activities called for in the Sea Launch Consent Agreement or otherwise agreed to by DTCC and BSS's parent, The Boeing Company. In fulfilling the responsibilities set forth in this Consent Agreement, the SCO may at his/her sole discretion present any disagreement with BSS's management directly to any or all among BSS's President and Chief Operating Officer, the BSS Board of Directors or the Director, DTCC. The BSS Chief Counsel may participate in discussions initiated by the SCO with BSS's Board of Directors at the SCO's or Board's discretion. The BSS Board of Directors shall consent to the following terms and conditions regarding the power, duties, authorities, and responsibilities of the SCO:

(A) The SCO shall have the power and authority to monitor BSS's compliance with the terms of this Consent Agreement and accompanying Order and shall exercise such power and authority and carry out the duties and responsibilities of the SCO as set forth herein in a manner consistent with the purposes of this Consent Agreement, the accompanying Order-, the specific terms and conditions of munitions license applications and other authorizations falling within the parameters of clause (c), above, provided to BSS by the Department of State, and shall do so in consultation with the DTCC.

(B) Within fifteen (15) days of the appointment of the SCO, BSS shall confer on this individual all rights and powers necessary to permit the SCO to monitor, oversee and promote BSS's compliance with the terms of this Agreement in a manner consistent with the purposes of this Agreement and the Order, and the specific terms and conditions of pertinent (i.e., covered by clause 2 (c) above) munitions license authorizations and other activities subject to the Regulations and the Act. Such rights and powers shall be conferred in writing; they shall be made known throughout BSS's respective companies; and a copy shall be deposited by the forty-sixth (46th) day of the signing of the Order with the Office of DTCC.

(C) The outside SCO shall serve for a three (3) year period from the date of the signing of the Order. If for any reason the appointed SCO is unable to serve the full period of his/her appointment, BSS's Chief Counsel and the Director, Export Management, IDS, may recommend a successor acceptable to the Director, DTCC, the latter's agreement to the replacement to be confirmed and provided in writing. Such a recommendation shall be made at least thirty (30) days in advance of a new appointment. If the SCO for any reason is unable to carry out the responsibilities described herein on a temporary basis

(i.e., not to exceed thirty (30) days), then BSS's Chief Counsel shall assume the power and authority of SCO in the interim. The conferring of rights and powers described in paragraph (B) above shall make provision for this event. Within twenty-four months of appointment, the SCO, after consultations with BSS Chief Counsel and the Director, Export Management, IDS, shall recommend a successor SCO acceptable to BSS and the Director, DTCC, who shall serve for the remaining two (2) year period. The successor SCO shall be an employee of BSS, who is fully empowered and capable of performing the responsibilities of the SCO.

(D) The SCO shall have full and complete access to BSS's personnel, books, records, documents, facilities and technical information relating to compliance with this Consent Agreement, Order and pertinent (i.e., covered by clause 2 (c) above) munitions authorizations, licenses, guidance and the like relating to the export of defense articles and defense services associated with BSS programs.

(E) BSS shall cooperate with any reasonable request of the SCO, including any request for assistance to obtain any necessary security clearances, and shall take no action to interfere with or impede the SCO's ability to monitor BSS's compliance with this Agreement, the Act and the Regulations or to carry out his/her other responsibilities set forth in this Agreement.

(F) The SCO, with BSS's consent, which shall not be unreasonably withheld, shall have the authority to employ, at the expense of BSS, such assistants and other professional staff as are reasonably necessary to carry out the SCO's duties and responsibilities. Such expenses, including salaries and expenses of the SCO, may be paid for from the additional suspended penalty of \$6,000,000 (six million dollars) of the applicable portion described in paragraph 5 (b) of this Agreement.

(G) The Office of DTCC may, on its own initiative or at the request of the SCO, issue such guidance as may be necessary or appropriate to ensure compliance with the Regulations and the terms and conditions of authorizations DTCC has provided to BSS.

(H) The SCO shall provide reports to the BSS Chief Counsel and shall also provide those reports to the BSS Board of Directors, the Vice President/Chief Counsel of the Integrated Defense Systems (IDS) group, as well as to the Director, DTCC, concerning BSS's compliance with this Agreement and Order, as well as with such other pertinent (i.e., covered by clause 2 (c) above) U.S. Government munitions authorizations, licenses, guidance and the like then in force pertaining to BSS's ITAR regulated activities. These reports shall include conclusions and any recommendations necessary to ensure strict compliance with the Act and Regulations; state whether the SCO has encountered any difficulties in exercising the duties and responsibilities assigned herein; describe any and all instances of non-compliance without waiving BSS's ability to submit voluntary disclosures; and advise on progress in implementing previous recommendations

advanced by the SCO. These reports may, in a separate annex, also include any relevant comments or input by BSS's Chief Counsel. The reports shall be provided:

- Every sixty (60) days for a period of six months from the date of the signing of the Order; and
- Semi-Annually thereafter during the remainder of the SCO's period of appointment.

Strengthened Compliance Training

(3) Within 120 days of the signing of the Order, BSS shall have instituted strengthened corporate export compliance procedures focused primarily on BSS's business operations such that: (a) all BSS employees of the business units engaged in space or missile-related activities are familiar with the Act, the Regulations, and their own and BSS's responsibilities, thereunder; (b) all officers and employees at the corporate level in these business units are knowledgeable about the underlying policies and principles of the Act and the Regulations; and (c) there are carefully maintained records indicating the names of the employees, trainers, and level and area of training received (e.g., use of public domain information in performing defense services, applicability of ITAR to foreign-origin defense articles).

Computer Control System and USG Remote Monitoring

(4) Within 60 days of the signing of the Order, BSS shall have provided access and appropriate training to DTCC for the BSS Space Link System. The access to Space Link and provision of CD ROMS for programs not currently on Space Link will ensure that DTCC and DoD/DTSA will have prior review of all documents which require such review pursuant to the terms and conditions of licenses and other approvals provided by the Department (DTCC) to BSS concerning its space and related activities. This system will cover all technical data and technical assistance in any form proposed to be disclosed to any foreign persons (covered by clause 2 (c) above) and will be accessible for a period of 7 (seven) years by remote computer access to DTCC, DoD/DTSA, the Special Compliance Official and the BSS's Chief Counsel's office. BSS will archive all releases, indexed to reflect the details of specific U.S. Government approvals, every 90 days, and provide copies in CD-ROM form to DTCC, DoD/DTSA and the Special Compliance Official for those cases not already on Space Link. BSS understands that DTCC may, at its sole discretion, decline to authorize use of exemptions for shipments of unclassified technical data in furtherance of a technical assistance agreement pending the institution of this system, as stated in the Federal Register, Vol. 64, No. 54, on March 22, 1999.

Law Department Oversight

(5) Within 120 days of signing the Order, BSS shall establish measures such that the BSS Chief Counsel's office will provide oversight and support to BSS and its subsidiaries involved in space and missile-related export activities for all matters involving the Act and Regulations. This oversight will also be structured to achieve consistent application of the Act and Regulations by all BSS subsidiaries. Toward this end, the BSS Chief Counsel's office shall consider and implement, where appropriate, those improvements in the respective BSS compliance program recommended by the Special Compliance Official which have applicability to other BSS entities. In addition, the BSS Chief Counsel's office shall take action such that in each BSS subsidiary, appropriate legal support is made available as necessary to the principal personnel responsible for compliance with the Act and Regulations and appropriate legal oversight is performed in each subsidiary with respect to such matters. In addition to other reporting responsibilities, BSS legal staff providing support regarding the Act and Regulations shall regularly report to the BSS Chief Counsel's office with respect to such matters. The Special Compliance Official and the BSS Chief Counsel's office will have the opportunity for input in performance reviews of the appropriate personnel responsible for compliance with the Act and Regulations.

Hotline for AECA and ITAR

(6) Within 30 days of the signing of the Order, BSS will publicize the availability of its Ethics Hotline for reporting violations of the Act and the ITAR to ensure that violations may be readily reported via this channel, without fear of recrimination or retaliation. Hotline calls about export matters will be directed to the Special Compliance Official and the Chief Counsel's office which will be responsible for responding to such calls. The Special Compliance Official shall prepare a quarterly report assessing the effectiveness of the hotline system. A copy of the report shall be provided to the Vice President and Chief Counsel of Boeing's Integrated Defense Systems Unit and to the Director, DTCC. This written report will contain sufficient detail such that the Department may, consistent with its responsibilities under the law and regulations, form an opinion about the seriousness of the alleged violations, without disclosing employee confidentiality.

Audit

(7) No later than eighteen months after signing the Order, BSS, in coordination with the Special Compliance Official, will conduct a thorough assessment of BSS's implementation of all measures set forth in paragraphs 1-6 above, and such other areas that may be identified by the Special Compliance Official, with a draft audit plan to be submitted for the Department's (DTCC) review and comment prior to the start of the audit. Thereafter, a written report containing recommendations for improvements with respect to the aforesaid measures or compliance with the Act or Regulations more generally, shall be submitted to the BSS Chief Counsel's office, the Director, Export

Management, IDS, the Special Compliance Official and to the Director, DTCC no later than the second anniversary of the signing of the Order.

Other

(8) In addition, the applicable portion of the civil penalty of \$6,000,000 (six million dollars) imposed under paragraph 5 (b) of the Consent Agreement may be applied to BSS's costs associated with increasing in-house export control personnel associated with additional export compliance enhancements, as required, including attorney(s), BSS's export compliance manual, internal web site, and other export control compliance procedures and documents, as well as consultants and experts from outside BSS to support the above described activities.